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Efficiency and economy key words of the comptroller.

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EFFICIENCY AND ECONOMY
KEY WORDS OF THE COMPTROLLER

by
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A Term Paper for
Navy Comptrollership Course
George Washington University
Washington, D. C.
May 8, 1953

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I INTRODUCTION

The management of the Navy is assigned four basic tasks. These tasks are "Policy Control," "Naval Command," "Logistics Administration and Control," and "Business Administration" of the Naval Establishment. Business administration is defined as the:

specific task which is imposed on the top management of any well operated organization - that of developing and maintaining economy and efficiency in the operation of the Naval Establishment with particular regard to matters of organization, staffing, administrative nonmilitary procedures, the utilization of personnel, materials and facilities, and the budgeting and expenditure of funds.¹

This is the phase of management to which the comptroller is dedicated. The comptroller's mission as set forth in the charter of the Comptroller of the Navy is:

to formulate principles and policies and to prescribe procedures in the areas of budget, fiscal, accounting, audit, progress and statistical reporting throughout the Department of the Navy to the end that their use will result in meeting the operating and planning requirements of management with efficiency and economy.²

Efficiency and economy are key words in the comptroller's vocabulary. They are the end product of his labors. Budget, fiscal, accounting, progress and statistical reports are his tools. His goal is to determine through analysis and interpretation of these reports the degree of efficiency of Navy management and to make recommendations for its improvement.

¹Office of the Management Engineer, Navy Dept., The United States Navy (Washington, D. C.: Government Printing Office, 1952), p. 8

²Ibid, p. 54

The function of a comptroller has not always been so conceived. The term comptroller has long been used in governmental organization and originally was intended to signify the officer who kept the record of receipts and expenditures of money. In one dictionary he is still defined as "a public officer who oversees accounts."³ As business and government grew in scope and complexity the comptrollership function also underwent transition. This transition has been ably described by Mr. A. R. Tucker, retired Managing Director of the Controllers' Institute of America:

Controllership had been fashionable in governmental setups because the people who paid taxes felt strongly that they should have someone in the official governmental family to check on the receipts and disbursements, to help plan the use of those funds and to see that those plans, or budgets, were carried out.

Everybody's money was nobody's money, with the result that it frequently was squandered until the controls necessary to guard the funds were established. The controllership function was seized upon by corporations because they, too, were big and were likely to become loose in their management unless safeguards were introduced.⁴

The pressure of competition and the magnitude of corporate taxes caused industry to seek out every conceivable technique and principle of management which would contribute to efficiency and consequently expand the ever-narrowing margin of profit. The vast size to which individual enterprises were growing made it apparent that the Chief Executive could devote insufficient thought to the solution of those problems. More and more reliance came to be placed upon the controller who, through his familiarity with and understanding of the fiscal reports of the enterprise, was in the logical position to interpret the success of its operations. Thus grew the present concept of the controller as an executive

³"Comptroller," the Winston Simplified Dictionary, 1936 ed.

⁴T. F. Bradshaw and C. C. Hull (ed.), Controllership in Modern Management, (Chicago: Irwin, Inc., 1950), p. 30

engaged exclusively in interpreting the financial success of his organization and developing techniques for its improvement.

In the interim, controllership in government had not kept pace. A re-awakening of interest developed when it was realized that the second world war had been accompanied by an increase in the public debt from 51 billions of dollars in 1940 to 259 billions in 1946. It was further stimulated by the unsettled state of the world, which necessitated a continuing expenditure of vast sums of money for national defense.

It became obvious that the greatest efficiency and economy would be essential to achieve adequate defense at an acceptable cost. The contribution to efficiency of the comptroller in private enterprise led to the creation of the controllership function in the Department of Defense by legislative action in 1949.

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II THE IMPORTANCE OF UNDERSTANDING

The size of the Naval Establishment precludes positive personal supervision of administrative management by top officials. Achievement of efficiency requires cooperation and coordination of effort at all levels of supervision. A primary function of the comptroller is to devise methods, and oversee performance to the end that this goal is achieved. Pursuit of this function includes communication of the need, responsibility for and advantages of efficiency throughout the Navy. It includes formulation of principles and procedures which can be utilized at all levels. It requires review of these methods to insure that they are uniform at all levels so that efforts at one level of activity are not circumvented at another. It entails development of information which will illustrate the degree of efficiency achieved and measure progress. It includes the reporting of this information and dissemination of the results of their review and analysis.

Successful accomplishment of all of these operations presupposes a common understanding and agreement upon the nature of the objective, which is to say that the meaning of efficiency must be clearly defined and the definition mutually accepted.

It has customarily been assumed that the meaning of efficiency is universally understood. It is possible that this presumption is in error. The understanding that efficiency is a virtue and that the words "efficiency and economy" should always appear in every exhortation to better performance is apparent from the context in which they are so constantly used. Too often, it is equally apparent

from the context that this is the total extent of their understanding. For example, though "efficiency and economy" almost always appear together, by definition they are almost redundant. The Winston Simplified Dictionary defines efficiency as "the quality of producing the desired result for the maximum effect with the minimum effort or expense." Economy has the more restricted, but strangely similar, definition of "thrifty management in expending income."

Certainly the dictionary cannot be charged with responsibility for complete interpretation of the significance of the words it contains, but it does provide a common ground of understanding, upon which all people can build with less possibility of misunderstanding among each other. One definition has already been quoted. Funk and Wagnall's College Standard Dictionary gives a very concise definition of efficiency. It is described as "the ratio of effect produced to the energy expended," or in its application to mechanics as "the ratio of input to output."

In each case, efficiency is a comparative term. It is used to express the degree of difference or the ratio between energy applied and result produced. Efficiency cannot be said to be poor solely because a great deal of effort is expended, or because an unsatisfactory effect is obtained. The only valid measure of efficiency is the relation which exists between effort and effect.

III THE RELATION OF COST TO EFFICIENCY

It is often assumed that efficiency merely denotes a reduction of cost. Such an interpretation of the word is too limited.⁵

The belief that reduction in cost by itself constitutes efficiency is widely held. In this period of disturbed international relations when the annual cost of military preparedness totals sixty percent of the federal budget, concern over the amount of this expense is understandable. But the statement which is frequently made is that the way to make the military more efficient is to provide it with less money. Such a statement in effect places the cart before the horse.

A reduction in expenditures with no regard to other considerations is most likely to result also in a reduction of result obtained, in which case the efficiency - the ratio of one to the other - will remain unimproved or even decrease. Efficiency has a far greater effect on expenditure than they other way around.

The danger in misunderstanding the relation of cost to efficiency is that reliance upon this false measure of efficiency may disguise the true state of military preparedness and unwisely weaken the nation's defense.

Efficiency certainly requires serious consideration of cost, but not to the exclusion of consideration of value received. In this respect, an attempt to relate too closely the operations of business to government has perhaps been misleading. Efficiency in business and industry (and their ultimate success or failure) is largely a matter of dollars and cents. Their efficiency can in

⁵Elmore Petersen and E. G. Plowman, Business Organization and Management, (Chicago: Irwin, Inc., 1949), p. 351

THE RELATION OF THE TWO

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large measure be judged from the figures which appear in their financial statements.

This is not generally true of government operations. The mission of the Navy is to maintain strength and readiness for war sufficient to uphold national policies and protect us from potential enemies. The profit or loss from these operations becomes apparent only in the actual test of battle.

IV MAJOR CONSIDERATIONS

Efficient naval administration depends upon dynamic management vested in individuals who possess intelligence, imagination and sincere devotion to their country's service. Mr. James V. Forrestal said in discussing a governmental study of the shipping industry:

The main point, however, is that is is illustrative of the kind of work that a secretariat should perform -- a check-up on things undone. In business that check-up is provided by the profit and loss statement. In government it can be provided only by individual men with imagination, initiative and tact - and driven not by the profit and loss statement, but by the desire to see government perform its function.⁶

Certain fundamental decisions establish the ground rules which govern the extent to which efficiency may be prosecuted. The mission of the Navy as well as the size and strength necessary to achieve that mission are matters of public policy. Despite the desire for greater strength there exists a maximum acceptable cost beyond which further expenditure would endanger the entire economy of the nation. These decisions of mission, strength and acceptable cost must be made by the top officials of the executive branch and eventually by the Congress:

What is the desirable magnitude of any major government program or function in terms of need, relation to other programs, and proportion of total governmental expenditures? This is essentially a question of public policy and must be answered by the responsible officials of the executive branch and eventually by the Congress.⁷

⁶Walter Millis (ed.), The Forrestal Diaries, (New York: The Viking Press, 1951), p. 142

⁷Budgeting and Accounting - A Report to the Congress, (Washington, D.C.: Government Printing Office, 1949), p. 11

V THE PROBLEM PRESENTED

How efficiently and economically can an approved government program be executed? In other words, can the same amount of work be performed satisfactorily under different arrangements or through improved procedures at less cost?⁸

This question of the Hoover Commission, reporting to the Congress on Governmental Budgeting and Accounting, succinctly states the task of the comptroller. The task is complicated, however, by the conclusions of the previous quotation that both the scope and the maximum acceptable cost of the defense program are prescribed.

This places the comptroller somewhat in the position of the shoe clerk attempting to satisfy the requirements of the lady customer whose choice of shoes is smaller than her foot size. The comptroller, however, is equipped with a more versatile shoe horn.

The principles and techniques for increasing efficiency in industry need little adaptation to become valuable guides for the comptroller. Many have already been accepted and are in use in the Navy. Others have been advocated and will be adopted as the comptroller discovers the means of adapting them to naval usage. Undoubtedly many additional systems, methods and concepts for the improvement of efficiency remain to be discovered. The almost unbelievable scientific advances in man's ability to create and destroy have already placed a premium on technological skill. The value of man's capacity to supplement this through efficient management is now being recognized. Armed with understanding, initiative imagination and with the words "efficiency and economy" emblazoned on his shield

⁸Ibid, p. 11

the comptroller can ride forth like the knights of old with confidence that he will return victorious and gain the plaudits of the multitude.

VI CONCLUSION

Together with all of management, the comptroller's first challenge is to create an awareness of the meaning of and the responsibility for efficient operation throughout the Naval Establishment, and to encourage and promote imagination and ingenuity in and within all commands to this purpose.

Secondly, the comptroller must develop, analyze and interpret the budget, fiscal, accounting and audit records of the Navy so as to present to management evidence of their progress toward increased efficiency and to suggest areas of further improvement.

Third, the comptroller must exercise his own initiative, skill and imagination in developing procedures, methods and devices which will assist commanders in achieving efficiency.

The comptroller's function is both a difficult and a challenging and rewarding one. It is beset with obstacles and subject to misunderstanding. At the same time, the resulting achievement of more and better defense at less cost brings its reward, the knowledge of service to one's country well done.

II. CONCLUSION

Therefore, since all of the above, the Department's first objective is to secure a statement of the results of the investigation, the efficiency of the operation, the results of the investigation, and to secure and preserve the information and property in and about all concerned in this matter.

Secondly, the Department will receive, analyze and interpret the results of the investigation and make reports of the same to the Bureau of Investigation.

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